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Message Text

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11
ACTION EA-14

INFO OCT-01 ISO-00 NSC-07 SS-20 NSCE-00 AGR-20 AID-20

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TO SECSTATE WASHDC PRIORITY 1509
INFO AMCONSUL HONG KONG

C O N F I D E N T I A L PEKING 444

E.O. 11652: GDS
TAGS: EAGR, ETRD, CH
SUBJECT: TCK WHEAT SMUT PROBLEM

REF A) PEKING 425 B) STATE 051882

1. DREYFUS REP MARQUOT VISITED USLO MARCH 15. HE OUTLINED BASIC FACTS OF CURRENT DREYFUS DISCUSSIONS WITH CHINA NATIONAL CEREALS, OILS AND FOODSTUFFS CORP., (CEROILFOOD) AS FOLLOWS:

A) DREYFUS HAS A SHIPMENT OF US MID-WESTERN WINTER WHEAT NOW IN CHINHUANGTAO WHICH THE CHINESE SAY HAS TCK. CEROILFOOD ABSOLUTELY REFUSES TO ACCEPT IT. MARQUOT ASKED WHY UNDER THESE CIRCUMSTANCES HE WAS ASKED TO COME TO PEKING TO NEGOTIATE THE MATTER; CEROILFOOD SAYS THE "NEGOTIATION" MUST CONCERN ARRANGEMENTS FOR DREYFUS TO TAKE BACK THE SHIPMENT. THIS IS A HARD AND FAST POSITION, MARQUOT SAYS, WITH THE CHINESE LEAVING NO ROOM FOR COMPROMISE. CEROILFOOD ALSO DEMANDS REMISSION OF THE FULL F.O.B. PRICE FOR THE GRAIN, PLUS INTEREST. MARQUOT, WHO IS FRENCH, HAS BEEN NEGOTIATING WITH THE CHINESE FOR EIGHT YEARS AND SAID HE HAS NEVER SEEN THEM AS TOUGH AS THEY ARE RIGHT NOW.

B) DREYFUS MIGHT BE WILLING TO TAKE BACK THE SHIPMENT, ALTHOUGH THE ARRANGEMENTS WOULD BE COMPLICATED BY THE FACT THAT THE WHEAT WAS SOLD F.O.B. AND HENCE IS ABOARD A PRC-CHARTERED SHIP. (THIS IS
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NOT THE CASE WITH CARGILL'S SHIPMENT IN SHANGHAI WHICH WAS SOLD

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C.I.F. AND IS ABOARD A CARGILL-CHARTERED VESSEL.) HOWEVER, WERE DREYFUS TO ACCEPT THE REJECTIONS, MARQUOT SAID, IT WOULD HAVE TO CANCEL ALL FURTHER DELIVERIES UNTIL THE TCK ISSUE CAN BE CLEARED UP. NONETHELESS, CEROILFOOD INSISTS THAT DREYFUS CONTINUE TO DELIVER WHEAT UNDER ITS CURRENT CONTRACTS, EVEN THOUGH THE CHINESE WILL REJECT ANY AND ALL SHIPMENTS WHICH THEIR QUARANTINE AUTHORITIES FIND TO HAVE TCK. DREYFUS THUS FINDS IT-SELF IN EXACTLY THE SAME POSITION AS CARGILL, I.E., THAT IT CANNOT BOTH ACCEPT REJECTION AND CONTINUE TO MAKE FURTHER DELIVERIES UNDER CEROILFOOD'S TERMS. THE RISK, MARQUOT EXPLAINED WOULD BE UNACCEPTABLE.

C) THE CHINESE HAVE TWO SHIPLOADS OF DREYFUS WHEAT NOW ON THE HIGH SEAS AND THERE IS NO WAY THESE SHIPMENTS CAN BE DIVERTED SINCE THESE SHIPMENTS WERE SOLD F.O.B. AND ARE UNDER CHINESE CONTROL. SHOULD THEY BE FOUND TO CONTAIN TCK, DREYFUS' CURRENT PROBLEM WILL BE MAGNIFIED. AS FOR THE REMAINING PORTION OF GRAIN TO BE SHIPPED OUT OF LAST YEAR'S CROP, DREYFUS HAS 57,000 TONS LEFT TO SHIP AND, MARQUOT BELIEVES, CARGILL HAS ABOUT 50,000. BOTH COMPANIES ARE ALSO OBLIGATED TO MAKE SHIPMENTS AGAIN FROM THE 1974 CROP. IN THE CASE OF DREYFUS, THAT AMOUNTS TO 300,000 TONS.

D) CEROILFOOD WANTS TO KEEP THE PRESENT DISPUTE PURELY WITHIN COMMERCIAL BOUNDS. MARQUOT STATED CATEGORICALLY THAT THERE HAS BEEN NO RPT NO CHINESE SUGGESTION THAT THIS SHOULD BECOME A "GOVERNMENT TO GOVERNMENT MATTER" (WE DID NOT QUOTE PARA 2 REFTEL B. TO HIM). THE CHINESE DO QUESTION THE VALIDITY OF USDA'S CERTIFICATION OF THE CARGOES IN QUESTION AND STATE THAT HOFFMAN WILL BE WELCOME TO COME TO CHINA AT ANY TIME TO CONFIRM THEIR OWN FINDINGS. HOWEVER, THEY ARE NOT ASKING HIM TO DO SO. IN FACT, WHEN MARQUOT ASKED IF HOFFMAN WOULD BE ALLOWED TO VISIT CHINHUANGTAO, CEROILFOOD WOULD GIVE ONLY A NON-COMMITAL RESPONSE. MARQUOT ADDED THAT CEROILFOOD HAS ALSO DECLINED REPEATED DREYFUS INVITATIONS TO SEND A DELEGATION TO THE US TO INSPECT GRAIN STORAGE, TRANSPORTATION AND PORT FACILITIES AND SEE WHAT INSPECTION PROCEDURES ARE EMPLOYED BY USDA.

E) DREYFUS HAS OFFERED TO PAY STERLIZATION CHARGES ON THE CONFIDENTIAL

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WHEAT NOW IN CHINHUANTAO, AS WAS DONE WITH SIMILAR SHIPMENTS FOLLOWING HOFFMAN'S VISIT IN OCTOBER, BUT CEROILFOOD HAS REJECTED THE OFFER, INSISTING THAT THE WHEAT BE TAKEN AWAY ENTIRELY. MARQUOT SPECULATES THAT CHINESE PORTS ARE TOO OVERCROWDED AND INEFFICIENT TO MAKE STERILIZATION ON A CONTINUING BASIS A REALISTIC POSSIBILITY FOR THE CHINESE.

2. THESE ARE THE ESSENTIAL FACTS OF DREYFUS'S SITUATION.

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IT WAS CLEAR FROM MARQUOT'S PRESENTATION THAT DREYFUS
FULLY SHARES CARGILL'S POSITION THAT TO ACCEPT REJECTION NOW WOULD
SET A PRECEDENT WHICH WOULD LEAVE AMERICAN GRAIN SHIPPERS IN AN
UNTENABLE POSITION AND WOULD REQUIRE US SUPPLIERS TO SEEK A WAY
OUT OF THEIR CURRENT CONTRACTUAL OBLIGATIONS. WHILE THERE
WERE NATURALLY DIFFERENCES IN EMPHASIS AND INTERPRETATION
BETWEEN MARQUOT'S OUTLINE OF THE SITUATION AND THAT GIVEN BY
CARGILL'S LANG, MARQUOT ESSENTIALLY CONFIRMED ALL INFORMATION
PROVIDED REF A.

3. AS FOR FURTHER INFORMATION WE CAN PROVIDE, THE FOLLOWING MAY
BE HELPFUL: (A) COOK GRAIN IS REPRESENTED LOCALLY BY A FRENCH
AFFILIATE, GRANIERE. A GRANIERE REP IS CURRENTLY IN PYONGYANG.
IT IS NOT KNOWN WHETHER HE HAS CURRENT PLANS TO VISIT
PEKING. AS REPORTED REFTEL, COOK'S FIRST SHIPMENT TO THE PRC
WAS FOUND TO HAVE TCK. HOWEVER, THE CHINESE ACCEPTED IT, WITH
A WARNING THAT FUTURE TCK SHIPMENTS WOULD BE REJECTED.
MARQUOT BELIEVES COOK IS OBLIGATED TO SUPPLY 500,000 TONS TOTAL,
FROM LAST YEAR'S CROP AND THE 1974 CROP. (B) BOTH DREYFUS AND
CARGILL ORIGINALLY SPECULATED THAT PORT CONGESTION HAS BEEN
CAUSING SUCH PROBLEMS IN UNLOADING GRAIN (WITH RESULTANT LARGE
DEMURRAGE BILLS) THAT THE CHINESE WERE USING THE TCK ISSUE AS A
MEANS OF ESCAPING RESPONSIBILITY FOR LONG UNLOADING DELAYS.
THEY NOW RULE THIS OUT. SO FAR AS EITHER CAN PERCEIVE, THE
BASIC PROBLEM THEY ARE CONFRONTING IS THE STRICTNESS OF PRC
QUARANTINE REGULATIONS AND INSISTENCE BY AUTHORITIES AT A HIGHER
LEVEL THAN CEROILFOOD THAT THESE REGULATIONS BE IMPLEMENTED.
(C) BOTH COMPANIES FEEL THAT THERE IS LITTLE A VISIT BY HOFFMAN COULD
ACCOMPLISH AT THIS POINT OTHER THAN TO VERIFY THE CHINESE
INSPECTOR'S FINDINGS. IF HOFFMAN WERE TO COME TO PEKING, LANG
FEELS AND USLO FULLY AGREES, HE SHOULD BE ACCOMPANIED BY ONE OR
TWO OTHER USDA OFFICIALS, OF AN APPROPRIATE LEVEL OF AUTHORITY,
WHO KNOW THE GRAIN TRADE AND WOULD HAVE US COMMERCIAL
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INTERESTS IN MIND. (D) BOTH THE DREYFUS AND CARGILL REPS SEEM
DETERMINED TO TOUGH IT OUT FOR AS LONG AS IT TAKES. THEY ARE
NOT ASKING FOR USG HELP, AT LEAST NOT IN THEIR TALKS WITH US,
BUT PROMISE TO CONTINUE TO KEEP US CLOSELY INFORMED.
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